HART SCHAFFNER & MARX

Thirty-fifth Annual Report
November 30, 1945

EXECUTIVE OFFICES

36 South Franklin Street

Chicago 6, Illinois

BOARD OF DIRECTORS

Eugene Bashore

Meyer Kestnbaum

DeWitt Millhauser

Lessing Rosenthal

Joseph Halle Schaffner

Joel Spitz

OFFICERS

Meyer Kestnbaum, *President*

Morris Greenberg	*Vice-President*
W. Ray Manning	*Vice-President*
Bernard A. Rittersporn	*Vice-President*
Henry H. Mayer	*Second Vice-President*
Clay E. Steele	*Secretary and Treasurer*
Thomas E. Davison	*Comptroller*
Morris Neufeld	*Assistant Secretary and Assistant Treasurer*

TRANSFER AGENTS

The First National Bank of Chicago
Chicago 90, Illinois

Bankers Trust Company
New York 15, N.Y.

REGISTRARS

Continental Illinois National Bank and Trust Company of Chicago
Chicago 90, Illinois

The New York Trust Company
New York 15, N.Y.

HART SCHAFFNER & MARX

CHICAGO NEW YORK

March 4, 1946

To the Stockholders of
Hart Schaffner & Marx:

On behalf of the directors of your company there is submitted herewith the annual report for the fiscal year ended November 30, 1945. The figures are presented on a comparative basis and in somewhat greater detail than in prior years.

Operations for the year just ended resulted in a consolidated net profit of $1,645,860 as compared with $1,392,596 for the previous year. It should be noted however that there was a charge of $100,000 against 1944 earnings which sum was added to the Reserve for Contingencies. Inasmuch as the reserve, which now stands at $700,000, appears adequate for any forseeable needs, no appropriation was made out of 1945 earnings.

The consolidated net sales of the parent company and its subsidiaries were approximately equal to those of the previous year. There was a marked change however in the composition of these sales. Shipments of the manufacturing company were substantially lower than those of the previous year whereas sales of the retail subsidiaries showed a satisfactory increase. The decline in wholesale shipments was due in part to the shortage of materials available for civilian production and also to the fact that production for military requirements absorbed a very large proportion of the company's capacity during the first half of the year. Government contracts were taken at low prices and on a very narrow margin.

All Government contracts have now been completed or terminated. The company has received clearances from the Price Adjustment Board of the War Department in connection with all contracts completed in prior years. Inasmuch as it is expected that similar clearances will be forthcoming for the current year it has not been considered necessary to provide a reserve against the contingency of renegotiation.

The limited production of men's civilian clothing during 1945 was not sufficient to take care of the greatly increased demand. Retail stocks have virtually disappeared and it is unfortunate that a large number of returning servicemen have found it impossible

to obtain clothes. There is good reason to believe however that raw materials will become more plentiful as the year progresses. The company has taken steps to build up its labor force which declined during the war years. It is expected that production during the current year will be on a basis comparable to the years immediately preceding the war. It is unlikely however that sufficient production can be developed to take care of the greatly expanded demand.

Because merchandise inventories and accounts receivable have declined to levels far below normal the company finds itself at the end of the year with a substantial portion of its assets in cash and Government securities. This situation will change as a higher rate of production is achieved and as inventories and accounts receivable are built up.

The company is considering the rehabilitation and improvement of various retail store properties. In connection with this program your directors are now engaged in making a survey of the future financial requirements of the company.

In its manufacturing operations the company is still confronted with the problems of rising costs and rigid price control. The industry recently concluded negotiations with the union on a nation-wide basis which resulted in a wage increase of approximately 20%. This increase in wages confronts the industry with serious problems. If pricing regulations require the company to absorb a substantial proportion of these increased costs the earnings of the parent company will be adversely affected.

Under war-time conditions many items of wearing apparel have deteriorated in quality. Men's clothing has, for the most part, been a notable exception. Your company takes pride in the fact that it has been able to maintain its standards of workmanship and materials. The product which it has been delivering throughout the war period at only a moderate increase in price is in every respect comparable in quality with pre-war standards.

Respectfully submitted,
MEYER KESTNBAUM
President

HART SCHAFF
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AND SUBSIDIAI
CONSOLIDATED I
As of November 3

Assets

	Nov. 30, 1945	Nov. 30, 1944
Current Assets:		
Cash	$ 6,002,306	$ 4,258,851
U. S. Government securities at cost	2,637,862	1,184,714
Notes and accounts receivable—		
Trade, less reserves for doubtful balances and discounts	1,843,351	2,739,820
Other	114,220	116,318
Inventories—		
Factory inventories at cost or market whichever is lower for current season's goods and estimated realizable value for past seasons' goods; inventories of retail stores at cost or market whichever is lower computed by the retail method	6,160,233	7,699,553
Total current assets	$16,757,972	$15,999,256
Other Assets:		
U. S. Government securities (at cost) deposited in escrow for building purposes	$ 501,565	$ —
Sundry investments (at cost) and loans, less reserves	92,652	84,166
Lease deposits	45,000	15,000
Cash surrender value of insurance policies on lives of officers of certain subsidiaries	37,306	32,847
Postwar credit of excess profits tax	—	67,478
	$ 676,523	$ 199,491
Properties—at cost:		
Shop equipment, furniture and fixtures	$ 3,516,054	$ 3,327,867
Reserve for depreciation	2,635,579	2,586,831
	$ 880,475	$ 741,036
Leasehold improvements—less amortization	404,367	284,126
Leaseholds—less amortization	7,758	8,065
	$ 1,292,600	$ 1,033,227
Deferred Charges:		
Prepaid rentals, insurance, supplies, etc.	$ 206,600	$ 248,475
Goodwill, Trade Names and Trade-Marks, at record value	$ 1	$ 1
	$18,933,696	$17,480,450

NER & MARX
Corporation)
RY COMPANIES
ALANCE SHEETS
0, 1945 and 1944

Liabilities

	Nov. 30, 1945	Nov. 30, 1944
Current Liabilities:		
Accounts payable—		
Trade	$ 821,227	$ 777,083
Other	541,939	456,980
Accrued salaries, wages and rents	586,897	576,072
Accrued taxes (other than taxes on income)	186,024	259,820
Reserve for federal and state taxes on income	2,237,105	1,917,267
Total current liabilities	$ 4,373,192	$ 3,987,222
Minority Stockholders' Interest	$ 32,451	$ 41,783
Reserve for Contingencies	$ 700,000	$ 700,000
Capital Stock and Surplus:		
Common stock—authorized and issued—375,000 shares, par value $10.00 each	$ 3,750,000	$ 3,750,000
Surplus—		
Capital surplus	1,422,975	1,422,975
Earned surplus	8,847,253	7,770,645
	$14,020,228	$12,943,620
Deduct—Treasury stock—19,217½ shares at par	192,175	192,175
	$13,828,053	$12,751,445
	$18,933,696	$17,480,450

HART SCHAFFNER & MARX

(A New York Corporation)

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

For the fiscal years ended November 30, 1945 and 1944

	Nov. 30, 1945	Nov. 30, 1944
Net sales and operating revenues	$33,805,246	$33,814,118
Dividends from sundry investments and interest	48,984	49,661
Sundry income	86,493	57,454
Total	$33,940,723	$33,921,233
Less:		
Cost of goods sold and occupancy expenses (exclusive of depreciation and amortization)	$23,731,320	$24,503,308
Depreciation and amortization	178,292	197,680
Selling, general and administrative expenses	6,065,655	5,798,317
Interest paid	13,658	26,454
Sundry income deductions	5,187	8,322
Minority interest in net profits of subsidiaries	14,149	8,937
Provision for taxes on income—		
Federal normal income tax and surtax	683,713	734,570
Federal excess profits tax	1,563,766	1,116,526
State income taxes	39,123	34,523
Total	$32,294,863	$32,428,637
Net profit for the year	$ 1,645,860	$ 1,492,596
Deduct: Appropriation for contingencies	—	100,000
Balance carried to earned surplus	$ 1,645,860	$ 1,392,596

CONSOLIDATED STATEMENTS OF SURPLUS

As of November 30, 1945 and 1944

CAPITAL SURPLUS

Balance at beginning of period	$ 1,422,975	$ 2,165,231
Deduct — Net charge arising from recapitalization authorized by stockholders on March 17, 1944	—	742,256
Balance at close of period	$ 1,422,975	$ 1,422,975

EARNED SURPLUS

Balance at beginning of period	$ 7,770,645	$ 6,804,988
Balance from consolidated statements of profit and loss	1,645,860	1,392,596
	$ 9,416,505	$ 8,197,584
Deduct—Dividends at $1.60 and $1.20 per share in 1945 and 1944 respectively	569,252	426,939
Balance at close of period	$ 8,847,253	$ 7,770,645

REPORT OF ACCOUNTANTS

To the Board of Directors of
Hart Schaffner & Marx:

We have examined the consolidated balance sheet of Hart Schaffner & Marx as of November 30, 1945 and the related consolidated statements of profit and loss and surplus for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary. Under a plan of periodic audits, we visited a number of the subsidiaries as of July 31, 1945 and these included the principal subsidiaries of the company except one which was examined by other independent accountants. In respect of all subsidiaries we were furnished, as of November 30, 1945, with their financial statements supported by details of inventories, receivables and other data, and obtained direct confirmation in respect of bank balances. The books and records of the subsidiaries not independently examined or tested have been audited during the year by internal auditors employed by the company, and the financial statements and internal auditors' reports have been subjected to our review. On the basis of such review, supplemented by inquiries we have made, we are of the opinion that the accounting procedures followed by these subsidiaries are in accordance with accepted principles of accounting maintained by the subsidiaries whose records were independently examined during the year. The combined assets, sales and net income of the subsidiaries (unimportant individually) which were not independently examined are, in the light of the tests which we have made, not material in relation to the consolidated total assets, sales and net income.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and surplus present fairly the consolidated position of Hart Schaffner & Marx and its subsidiaries as of November 30, 1945 and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

PRICE, WATERHOUSE & CO.

CHICAGO, ILLINOIS
January 15, 1946

FIVE YEAR RECORD OF EARNINGS

Years Ended Nov. 30†	Consolidated Net Income Total	Per Share*
1945	$1,645,860	$4.63
1944	1,392,596	3.91
1943	1,631,319	4.59
1942	1,437,529	4.19
1941	895,173	2.52

FIVE YEAR RECORD OF DIVIDENDS

Years Ended Dec. 31†	Total	Per Share*
1945	$569,252	$1.60
1944	426,939	1.20
1943	494,095	1.40
1942	274,625	0.80
1941	212,727	0.60

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† The consolidated net income (after appropriations for contingencies) is stated above on the basis of the fiscal year of the company. Dividends, however, are stated above on the basis of calendar years because a statement on a fiscal year basis would not be strictly comparative.

* For years prior to 1943, the statements of consolidated net income and dividends per share are on the basis of the equivalent per share of common stock, $10 par value. Actual amounts for such years per share of stock then outstanding were 2½ times the amounts shown above.